

Testimony to the Committee on Economic Development
Kevin A. Hassett
Director of Economic Policy Studies AEI
D.C. First Swing
Commissioner, AAA division of Northwest Washington Little League

Thank you for the opportunity to speak with you today. I should say at the outset that my remarks reflect my own views and opinions, and not necessarily those of the organizations with which I am affiliated.

I am an economist working at a think tank in town who was previously a senior economist at the Federal Reserve Board and associate Professor of Economics at Columbia University. While at Columbia, I taught a decision making class in the Graduate School of Business that was designed to help local officials make economically rational decisions. I am also a parent whose 10-year old son plays Little League baseball in the city.

First, I must say that the discussion of the stadium decision has often had its economics all wrong. A key factor in the debate has been a flurry of economic studies providing differing views on the question of whether the proposed stadium will pay for itself, with opponents suggesting that the stadium would not pay for itself, and hence should not be built.

This focus is incorrect. A city should pursue an economic policy if the costs are lower than the benefits of the project for its citizens. Benefits of most government programs are both pecuniary and nonpecuniary. We would not, for example, refuse to build a playground because it did not pay for itself indirectly through subsequent economic development. Tax revenue is not the only variable. Thus, when weighing the decision to build the stadium, the city should attempt to quantify as best as it can the costs and benefits of the stadium. If council members withhold their vote solely on the grounds that the stadium does not pay for itself, they are implicitly assuming that the benefits of the stadium are zero.

Such an assumption is surely incorrect, as I will discuss in a moment.

How should one go about discovering the costs and benefits? The first thing one must do is be careful not to mix up stocks and flows, as is often done. The stadium costs an upfront amount of money, let's say its \$600 million. That money makes the presence of a baseball team possible, which will deliver benefits over many, many years. Those benefits will flow each year, so a correct comparison requires either that we aggregate all future benefits into a single present value number, or that we compare the opportunity costs of the initial debt to the flow of benefits.

Just to use round numbers, let's assume that the opportunity cost of funds is 5 percent per year, and let's assume that the debt is never paid back. On these assumptions, the cost

each year to D.C. residents of having a baseball team in the city amount to \$30 million per year.

Will those costs be fully offset by economic development? They might well be, although there is quite a bit of dispute among reputable economists about this. But suppose, just to be conservative, that only half of the costs are recouped through higher tax revenue. That means that the true costs to D.C. are only \$15 million per year. While that is a lot of money to you or to me, it is a very small amount of money relative to the annual D.C. budget.

So now the question becomes, is it possible that even in this conservative scenario that the benefits exceed \$15 million per year? If you think through the relevant factors, it seems highly likely that the benefits are enormously larger than that.

First, and most directly, are the benefits to those who attend the game. If I pay \$10 to go to the game, I do so because the enjoyment I receive from attending is greater than \$10. If the game gives me \$20 of enjoyment when I pay \$10, then economists would say that I have a \$10 consumer surplus, which is the benefit to me of attending. Suppose 2.5 million fans go to a game each year. Their consumer surplus alone could well exceed the \$15 million needed to support the stadium build. If each fan placed a value of his enjoyment of the game at \$6, then the costs would be covered. (Some of the attendees may be from outside of D.C., which would lower the D.C. benefit calculation should Council members chose to ignore benefit to noncitizens.).

But there are other benefits as well. Many citizens enjoy following the team even though they do not attend games, and many who do attend games enjoy following the team for all the other games as well. As Red Sox fans in the audience could attest, this enjoyment skyrockets in value when a team is winning. Very modest estimates of this value could easily cover the annual financing costs

Finally, and most importantly, I would like to address the biggest benefit of the stadium.

As I have lived in D.C. over the years, I have been disappointed by the extent to which the city is divided, often along racial grounds. While community leaders have often sought ways to bring our citizens together, I am unaware of any initiatives that have really been successful. Baseball brings the kids (and parents) of our city together in a way that I could never have expected.

Last summer, for example, I brought a contingent of Northwest Washington 10-year olds to a baseball tournament in Southeast that was attended by players from around the city. During the tournament, kids played together while parents chatted in the stands and shared Gatorades. After the tournament, all of the players marched in the neighborhood July 4th parade, with kids laughing and playing in groups with many different colored jerseys and skin. After the parade, the players all received free tickets and attended a Nationals game together, parents shared stories, the kids ate hotdogs.

This community event was not one-time shot. At one event, Bob Feller and other former major leaguers taught our D.C. kids baseball skills on the field at RFK. At another event, Frank Howard hit them fly balls.

When Katrina hit, refugees from New Orleans arrived at the armory. Remembering my new friends from around the city, I sent an email out asking the D.C. baseball community to help the kids in the armory become involved in baseball. I found that others were already working on it. The response was overwhelming, and a sign that something very special was accomplished this summer. The countless D.C. youth baseball organizations became a D.C. baseball community.

It is not just casual empiricism to connect this coming together with the presence of the Nationals. Going forward, as the Nationals become more entrenched in the community, and as relationships continue to blossom in the youth baseball community, I would expect that the benefits we viewed this summer will multiply. Comparing this flow of benefits to the relatively meager annual costs of financing a stadium, and acknowledging the other benefits detailed above, it is inconceivable to me that the stadium benefits would not exceed the costs by a substantial margin.